

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

MARCH 2001 VOLUME XXI NO. 9

As the NCAA basketball championship season got under way, the U.S. stock market was in the throes of a different form of "March Madness." Already battered since last year's highs, the market plunged even further. As of March 23, 2001 the technology-laden NASDAQ had lost 62% of its value. The broader based S&P 500 was down nearly 26%. Looked at another way, by early March the NASDAQ and S&P 500 had depleted their tremendous gains of 1999 and early 2000. Unfortunately, the NASDAQ has sunk further. By March 28th, the NASDAQ lost another 3.9% of its value. A cavalcade of disappointing earnings reports suggest the stock market has yet to find its bottom.

The deteriorating stock market affects the economy through many channels. Consumer confidence should be slowed by losses in household wealth. For example, the drop in the NASDAQ has reduced its market capitalization by nearly \$4 trillion. With households spending an estimated 2.5% of wealth each year, this implies a \$100 billion (1.4%) bite out of consumer spending. During the go-go years of 1999 and 2000, consumer spending

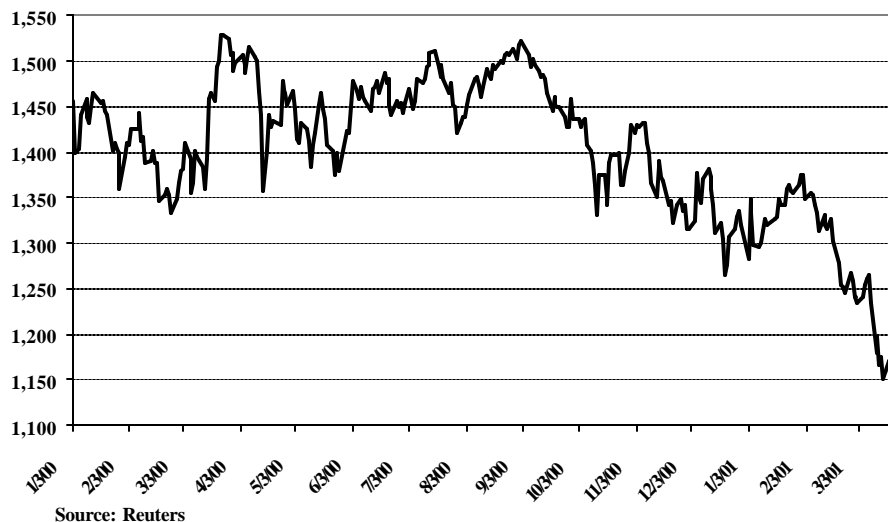
grew 2.3 percentage points faster than disposable income. Recent losses in financial wealth should cause households to rethink this strategy. and, save more of their incomes, and curb spending. Also suppressing consumer spending is the wave of layoffs by technology, communications, and manufacturing companies. Business investment will be hurt by the rising cost of equity finance, which has already dried up initial public offerings. Deteriorating cash flow, tight credit, falling stock prices, and uncertainty over future market growth could discourage businesses from investing in additional capacity. With world economic growth slowing,

export markets will not be able to take up any of this slack. Japan's economy remains stalled and its stock market is in worse shape than the U.S. market. Across emerging markets, falling stock prices, high energy costs, a weakening U.S. export market, and fragile financial systems are undermining growth.

What does this mean for the U.S. economy? Although the nation's economy is fundamentally sound, the risks of the slowdown turning into a mild recession are increasing. At the beginning of March 2000, DRI assigned a 40% probability of a recession this year. Given the stock market's

decline since then, the odds of a recession are moving closer to 50%. DRI assumes that in such a recession, real GDP would decline 1.2% over the first three quarters of this year, with investment cutbacks and inventory liquidation dominating the downturn. The unemployment rate should rise from February's 4.2% to a peak of 6.3% at year's end. Over the course of the entire year, real GDP would fall 0.3%. In comparison, real GDP is projected to grow 1.6% in 2001 if the economy escapes a recession.

S & P 500 Index Daily Closing Price



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Correction Notice: The original Outlook was sent with the “as of” date incorrectly specified as March 31, 2001

General Fund Update

Corrected: As of February 28, 2001

<u>Revenue Source</u>	\$ Millions		
	FY01	DFM	Actual
	Executive	Predicted	Accrued
	Estimate ³	To Date	To Date
Individual Income Tax	1024.2	642.4	625.4
Corporate Income Tax	170.0	81.6	93.1
Sales Tax	658.0	446.0	439.8
Product Taxes ¹	20.7	13.9	13.8
Miscellaneous	<u>127.0</u>	<u>81.0</u>	<u>89.0</u>
TOTAL GENERAL FUND²	1999.8	1264.9	1261.1

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of January 2001

General fund revenue collections were \$11.9 million lower than expected in February and now stand \$3.8 million below the fiscal year-to-date estimated amount. This is the second consecutive month of the weaker than expected revenue performance. Virtually all of February's weakness was in the individual and corporate income tax. General Fund revenue fell \$10 million short in August 2000, but over half that amount was due to a two-month delay of a fund transfer (essentially, a timing issue).

Individual income tax collections in February were \$8.8 million lower than expected.

Unlike last month, withholding collections were only a small source of this weakness, off just \$0.3 million. Filing collections were short by \$1.3 million in February, and refund payments were \$6.6 million higher-than-expected. Much of the higher than expected refunds are probably due to a recent trend of quicker refund processing due to a combination of electronic filing technology and more efficient processing capabilities on the part of the State Tax Commission.

Corporate income tax was \$3.4 million lower than expected in February. This shortfall is divided among filing collections (low by \$1.3 million),

estimated payment collections (low by \$1.0 million), and refund payments (high by \$1.1 million). In spite of February's deterioration, this revenue category is \$11.5 million above the cumulative predicted amount as of the end of February.

Sales tax collections were \$0.5 million higher than expected in February. This is only the third month this fiscal year that the sales tax has come in above expectations. February collections reflect January sales activity, a period in which national reports suggested a rebound in retail sales activity. February reports suggest the consumption rebound was short lived, and recent economic

and financial news increase the odds that weakness will return to this return category.

Product taxes came in on target in February. Miscellaneous revenue was \$0.2 million lower than expected for the month of February, but is still \$8 million higher than expected for the fiscal year to date. \$6.6 million of this miscellaneous excess is due to estate tax collections, and \$1.5 million is due to unclaimed property receipts.